

FOR RELEASE Riceville Reporter, City of Riceville, Iowa

Lines Murphy & Company, P. L. C., of Osage today released an audit report on the City of Riceville, Iowa.

The City's receipts totaled \$1,076,244 for the year ended June 30, 2008. The receipts included \$149,129 in property tax, \$178,020 from charges for service, \$109,261 from operating grants and contributions, \$67,593 from local option sales tax and \$550,000 in debt proceeds. The Riceville Enterprise Funds receipts equaled \$144,621.

City disbursements for the year totaled \$1,085,647, and included \$633,802 for capital projects, \$169,928 for public works, \$79,990 for public safety, \$73,638 for culture and recreation, \$60,998 for general government and \$61,123 for debt service. Disbursements for the Riceville Enterprise Funds totaled \$106,067.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

CITY OF RICEVILLE
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2008

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City of Riceville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2008)		
Dean R. Mauer	Mayor	Jan 2008
Marvin Shoger	Council Member	Jan 2008
Alex Adams	Council Member	Jan 2008
Steve Harnack	Council Member	Jan 2010
Terry Byrnes	Council Member	Jan 2010
Shane Lewis	Council Member	Jan 2010
Trudy O'Donnell	City Clerk	Indefinite *
Theresa Shoger	City Clerk	Indefinite **
Kathryn Levorson	Treasurer	Indefinite
Aaron Murphy	Attorney	Indefinite
(After January 2008)		
Dana Fister	Mayor	Jan 2012
Steve Harnack	Council Member	Jan 2010
Terry Byrnes	Council Member	Jan 2010
Shane Lewis	Council Member	Jan 2012
Mark Patrick	Council Member	Jan 2012
Robert Foss	Council Member	Jan 2012
Theresa Shoger	City Clerk	Indefinite **
Crystal Kobliska	City Clerk	Indefinite
Kathryn Levorson	Treasurer	Indefinite
Aaron Murphy	Attorney	Indefinite

* Trudy O'Donnell resigned in July 2007, replaced by Theresa Shoger.

** Theresa Shoger resigned in February 2008, replaced by Crystal Kobliska.

City of Knoxville

Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Riceville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City of Riceville have not been audited for all prior years. Accordingly we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007 as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our reports dated January 16, 2009 on our consideration of the City of Riceville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The City has not presented Management's Discussion and Analysis which introduces the basic financial statements by presenting certain financial information as well as management's

analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Budgetary comparison information on pages 15 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riceville's basic financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2007 as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
January 16, 2009

Basic Financial Statement

City of Riceville

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2008

	<u>Disbursements</u>
Functions / Programs:	
Governmental activities:	
Public safety	\$ 79,990
Public works	169,928
Health and social services	56
Culture and recreation	73,638
Community and economic development	6,112
General government	60,998
Debt service	61,123
Capital projects	633,802
Total governmental activities	<u>\$ 1,085,647</u>
Business type activities:	
Water	52,382
Sewer	53,685
Total business type activities	<u>\$ 106,067</u>
Total	<u>\$ 1,191,714</u>
General Receipts:	
Property tax levied for:	
General purposes	
Tax increment financing	
Debt service	
Local option sales tax	
Unrestricted interest on investments	
Bond proceeds	
Miscellaneous	
Transfers	
Total general receipts and transfers	
Change in cash basis net assets	
Cash basis net assets beginning of year	
Cash basis net assets end of year	
Cash Basis Net Assets	
Restricted:	
Streets	
Debt service	
Other purposes	
Unrestricted	
Total cash basis net assets	

See notes to financial statements.

Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
\$ 1,993	\$ 11,291	\$ -	\$ (66,706)	\$ -	\$ (66,706)
61,294	72,694	-	(35,940)	-	(35,940)
-	-	-	(56)	-	(56)
2,464	24,072	-	(47,102)	-	(47,102)
7,719	-	-	1,607	-	1,607
9,229	1,000	-	(50,769)	-	(50,769)
-	-	-	(61,123)	-	(61,123)
95,321	204	-	(538,277)	-	(538,277)
<u>\$ 178,020</u>	<u>\$ 109,261</u>	<u>\$ -</u>	<u>\$ (798,366)</u>	<u>\$ -</u>	<u>\$ (798,366)</u>
\$ 83,037	\$ -	\$ -	\$ -	\$ 30,655	\$ 30,655
61,584	-	-	-	7,899	7,899
<u>\$ 144,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,554</u>	<u>\$ 38,554</u>
<u>\$ 322,641</u>	<u>\$ 109,261</u>	<u>\$ -</u>	<u>\$ (798,366)</u>	<u>\$ 38,554</u>	<u>\$ (759,812)</u>
			\$ 149,129	\$ -	\$ 149,129
			-	-	-
			-	-	-
			67,593	-	67,593
			12,026	-	12,026
			550,000	-	550,000
			10,215	-	10,215
			-	-	-
			<u>\$ 788,963</u>	<u>\$ -</u>	<u>\$ 788,963</u>
			\$ (9,403)	\$ 38,554	\$ 29,151
			412,287	124,274	536,561
			<u>\$ 402,884</u>	<u>\$ 162,828</u>	<u>\$ 565,712</u>
			\$ -	\$ -	\$ -
			-	-	-
			7,182	3,234	10,416
			395,702	159,594	555,296
			<u>\$ 402,884</u>	<u>\$ 162,828</u>	<u>\$ 565,712</u>

City of Riceville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2008

	General	Special Local Option Sales Tax
Receipts:		
Property tax	\$ 98,289	\$ -
Tax increment financing collections	-	-
Other city tax	-	67,593
Licenses and permits	2,481	-
Use of money and property	12,026	-
Intergovernmental	26,645	-
Charges for service	68,995	-
Special assessments	-	-
Miscellaneous	31,029	-
Total receipts	\$ 239,465	\$ 67,593
Disbursements:		
Operating:		
Public safety	\$ 65,044	\$ -
Public works	58,083	-
Health and social services	56	-
Culture and recreation	69,199	-
Community and economic development	6,112	-
General government	60,998	-
Debt service	-	-
Capital projects	-	-
Total disbursements	\$ 259,492	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ (20,027)	\$ 67,593
Other financing sources (uses):		
Operating transfers in	\$ -	-
Operating transfers out	-	-
Bond and note proceeds	-	-
Total other financing sources (uses)	\$ -	\$ -
Net change in cash balances	\$ (20,027)	\$ 67,593
Cash balances beginning of year	207,503	86,172
Cash balances end of year	\$ 187,476	\$ 153,765
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Permanent fund	-	-
Unreserved:		
General fund	187,476	-
Special revenue funds	-	153,765
Capital projects fund	-	-
Total cash basis fund balances	\$ 187,476	\$ 153,765

See notes to financial statements.

Exhibit B

Revenue		Capital Project	Other Nonmajor Governmental Funds	Total
Road Use Tax	Employee Benefits	Street Related		
\$ -	\$ 46,215	\$ 4,625	\$ -	\$ 149,129
-	-	-	-	-
-	-	-	-	67,593
-	-	-	-	2,481
-	-	204	127	12,357
72,694	-	-	-	99,339
-	-	-	-	68,995
-	-	95,321	-	95,321
-	-	-	-	31,029
<u>\$ 72,694</u>	<u>\$ 46,215</u>	<u>\$ 100,150</u>	<u>\$ 127</u>	<u>\$ 526,244</u>
\$ -	\$ 14,946	\$ -	\$ -	\$ 79,990
83,599	28,246	-	-	169,928
-	-	-	-	56
-	-	-	4,439	73,638
-	-	-	-	6,112
-	-	-	-	60,998
-	-	24,443	36,680	61,123
-	-	633,802	-	633,802
<u>\$ 83,599</u>	<u>\$ 43,192</u>	<u>\$ 658,245</u>	<u>\$ 41,119</u>	<u>\$ 1,085,647</u>
\$ (10,905)	\$ 3,023	\$ (558,095)	\$ (40,992)	\$ (559,403)
\$ -	\$ -	\$ -	\$ 36,680	\$ 36,680
-	-	(36,680)	-	(36,680)
-	-	550,000	-	550,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 513,320</u>	<u>\$ 36,680</u>	<u>\$ 550,000</u>
\$ (10,905)	\$ 3,023	\$ (44,775)	\$ (4,312)	\$ (9,403)
179,285	12,670	(84,837)	11,494	412,287
<u>\$ 168,380</u>	<u>\$ 15,693</u>	<u>\$ (129,612)</u>	<u>\$ 7,182</u>	<u>\$ 402,884</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	7,182	7,182
-	-	-	-	187,476
168,380	15,693	-	-	337,838
-	-	(129,612)	-	(129,612)
<u>\$ 168,380</u>	<u>\$ 15,693</u>	<u>\$ (129,612)</u>	<u>\$ 7,182</u>	<u>\$ 402,884</u>

City of Riceville

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2008

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 83,037	\$ 61,584	\$ 144,621
Operating disbursements:			
Business type activities	52,382	53,685	106,067
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ 30,655	\$ 7,899	\$ 38,554
Non-operating receipts (disbursements):			
Interest on investments	\$ -	\$ -	\$ -
Debt Service	-	-	-
Net non-operating receipts (disbursements)	\$ -	\$ -	\$ -
Excess (deficiency) of receipts over (under) disbursements	\$ 30,655	\$ 7,899	\$ 38,554
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	-	-	-
Net operating transfers	\$ -	\$ -	\$ -
Net change in cash balances	\$ 30,655	\$ 7,899	\$ 38,554
Cash balances beginning of year	90,873	33,401	124,274
Cash balances end of year	\$ 121,528	\$ 41,300	\$ 162,828
Cash Basis Fund Balances			
Reserved for water deposits	\$ 3,234	\$ -	\$ 3,234
Unreserved	118,294	41,300	159,594
Total cash basis fund balances	\$ 121,528	\$ 41,300	\$ 162,828

See notes to financial statements.

City of Riceville

Notes to Financial Statements

June 30, 2008

(1) Summary of Significant Accounting Policies

The City of Riceville is a political subdivision of the State of Iowa located in Howard and Mitchell Counties. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Riceville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Howard County Assessor's Conference Board, Mitchell County Assessor's Conference Board, City Assessor's Conference Board, Howard County Emergency Management Commission, Mitchell County Emergency Management Commission, Floyd-Mitchell-Chickasaw Solid Waste Agency, Howard County Joint E911 Service Board, and Mitchell County Joint E911 Service Board. The City of Riceville also entered into an agreement with the City of Chester to share education and training costs of employees.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for Local Option Sales Tax collected from the State.

The Employee Benefits Fund is utilized to account for property taxes levied for employee benefits.

The Capital Project Street Related Fund is used to account for street related capital projects.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Riceville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in community and economic development functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest Rate Risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2009	\$ 35,000	\$ 24,443
2010	40,000	23,043
2011	40,000	21,403
2012	40,000	19,743
2013	45,000	18,063
2014-2018	240,000	60,270
2019-2023	110,000	8,030
Total	\$ 550,000	\$ 174,995

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$11,492, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. These accumulations are not recognized as disbursements by the City until used or paid. However, vacation and sick time is cancelled if not used within the year and upon termination of employment with the city. The City's approximate liability for compensatory time termination payments payable to employees at June 30, 2008, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Compensatory	\$ 4,622

This liability has been computed based on rates of pay in effect at June 30, 2008.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
	Capital Projects:	
Debt Service	2000 Street	<u>36,680</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$9,070 during the year ended June 30, 2008.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Deficit Fund Balances

The Capital Projects Fund, 2007 Street Project Account had a deficit balance of \$92,180 at June 30, 2008. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated through special assessments. The Capital Projects Fund, 2000 Street Project Account had a deficit balance of \$37,432 at June 30, 2008. The deficit balance was a result of project cost incurred prior to availability of funds. The deficit will be eliminated through special assessments.

(10) Floyd-Mitchell-Chickasaw Solid Waste Management Agency

The City, in conjunction with fourteen other municipalities, has created the Floyd-Mitchell-Chickasaw Solid Waste Management Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board composed of an elected representative of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the participating governments are obligated for a proportionate share of the debt, therefore, the City of Riceville may have an ongoing financial responsibility. The City is also obligated to remit a share of the operating and administration costs. Completed financial statements for the Agency can be obtained from the Floyd-Mitchell-Chickasaw Solid Waste Management Agency.

(11) Leases

Allied Construction entered into a five-year lease on January 1, 2007 with the City for use of the old dumpsite. The lease expires in 2012. The lessee will have an option to renew the lease for another five years. Payments received by the City were \$1,500 for the year ended June 30, 2008. Future minimum lease payments are \$1,500 for years 2009 and 2010, and \$750 for the year ending 2011 totaling \$3,750.

Head Start programs entered a one-year renewable lease with the City for use of the Block Building on July 1, 2007. The City received thirteen monthly payments of \$150 totaling \$1,950 for the year ended June 30, 2008.

Jennifer Schumann of Schumann Studios entered into a one-year lease with the City for the use of the old library building on May 1, 2007. The City received twelve monthly payments totaling \$1200 for the year ended June 30, 2008.

(12) Subsequent Events

The City approved a housing grant program not to exceed \$11,000. In addition, the City approved a rehabilitation project for 8 units not to exceed \$6,000 per unit for a maximum liability of \$48,000.

Revised Supplementary Information

City of Riceville
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 149,129	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	67,593	-	-
Licenses and permits	2,481	-	-
Use of money and property	12,357	-	-
Intergovernmental	99,339	-	-
Special assessments	95,321	-	-
Charges for service	68,995	144,621	-
Miscellaneous	31,029	-	-
Total receipts	<u>\$ 526,244</u>	<u>\$ 144,621</u>	<u>\$ -</u>
Disbursements:			
Public safety	\$ 79,990	\$ -	\$ -
Public works	169,928	-	-
Health and social services	56	-	-
Culture and recreation	73,638	-	-
Community and economic development	6,112	-	-
General government	60,998	-	-
Debt service	36,680	-	-
Capital projects	658,245	-	-
Business type activities	-	106,067	-
Total disbursements	<u>\$ 1,085,647</u>	<u>\$ 106,067</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ (559,403)	\$ 38,554	\$ -
Other financing sources, net	<u>550,000</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ (9,403)	\$ 38,554	\$ -
Balances beginning of year	<u>412,287</u>	<u>124,274</u>	<u>-</u>
Balances end of year	<u>\$ 402,884</u>	<u>\$ 162,828</u>	<u>\$ -</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
\$ 149,129	\$ 134,949	\$ 134,949	\$ 14,180
-	-	-	-
67,593	53,124	73,124	(5,531)
2,481	2,000	2,000	481
12,357	16,000	17,100	(4,743)
99,339	97,144	100,644	(1,305)
95,321	97,031	97,031	(1,710)
213,616	207,000	207,000	6,616
31,029	12,050	115,050	(84,021)
<u>\$ 670,865</u>	<u>\$ 619,298</u>	<u>\$ 746,898</u>	<u>\$ (76,033)</u>
\$ 79,990	\$ 79,393	\$ 81,346	\$ 1,356
169,928	178,092	188,528	18,600
56	400	400	344
73,638	66,643	76,260	2,622
6,112	5,200	5,200	(912)
60,998	49,981	65,396	4,398
36,680	36,680	36,680	-
658,245	725,000	729,500	71,255
106,067	129,228	148,754	42,687
<u>\$ 1,191,714</u>	<u>\$ 1,270,617</u>	<u>\$ 1,332,064</u>	<u>\$ 140,350</u>
\$ (520,849)	\$ (651,319)	\$ (585,166)	\$ 64,317
550,000	410,000	551,000	(1,000)
\$ 29,151	\$ (241,319)	\$ (34,166)	\$ 63,317
536,561	458,646	536,520	41
<u>\$ 565,712</u>	<u>\$ 217,327</u>	<u>\$ 502,354</u>	<u>\$ 63,358</u>

City of Riceville

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$61,447. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in community and economic development functions.

Other Supplementary Information

City of Riceville

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2008

	Permanent				Total
	Debt Service	Economic Development	Library Trust	Park Trust	
Receipts:					
Use of money and property	\$ -	\$ -	\$ 29	\$ 98	\$ 127
Miscellaneous	-	-	-	-	-
Total Receipts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29</u>	<u>\$ 98</u>	<u>\$ 127</u>
Disbursements:					
Operating:					
Health and social services	\$ -	\$ -	\$ -	\$ -	\$ -
Community and economic development	-	-	4,439	-	4,439
Debt Service	36,680	-	-	-	36,680
Total disbursements	<u>\$ 36,680</u>	<u>\$ -</u>	<u>\$ 4,439</u>	<u>\$ -</u>	<u>\$ 41,119</u>
Excess of receipts over disbursements	<u>\$ (36,680)</u>	<u>\$ -</u>	<u>\$ (4,410)</u>	<u>\$ 98</u>	<u>\$ (40,992)</u>
Other financing sources:					
Operating transfers in	<u>\$ 36,680</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>36,680</u>
Net change in cash balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (4,410)</u>	<u>\$ 98</u>	<u>\$ (4,312)</u>
Cash balances beginning of year	<u>-</u>	<u>1,594</u>	<u>5,215</u>	<u>4,685</u>	<u>11,494</u>
Cash balances end of year	<u><u>\$ -</u></u>	<u><u>\$ 1,594</u></u>	<u><u>\$ 805</u></u>	<u><u>\$ 4,783</u></u>	<u><u>\$ 7,182</u></u>
Cash Basis Fund Balances					
Reserved:					
Permanent fund	<u>\$ -</u>	<u>\$ 1,594</u>	<u>\$ 805</u>	<u>\$ 4,783</u>	<u>\$ 7,182</u>
Total cash basis fund balances	<u><u>\$ -</u></u>	<u><u>\$ 1,594</u></u>	<u><u>\$ 805</u></u>	<u><u>\$ 4,783</u></u>	<u><u>\$ 7,182</u></u>

See accompanying independent auditors' report.

City of Knoxville

City of Riceville
Schedule of Indebtedness
Year ended June 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Series 2000	May 15, 2000	4.9-5.5%	\$ 400,000
Series 2007	Jul 15, 2007	4.0-4.9%	550,000
Total			

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 35,000	\$ -	\$ 35,000	\$ -	\$ 1,680	\$ -
-	550,000	-	550,000	24,443	
<u>\$ 35,000</u>	<u>\$ 550,000</u>	<u>\$ 35,000</u>	<u>\$ 550,000</u>	<u>\$ 26,123</u>	<u>\$ -</u>

City of Riceville
Bond and Note Maturities
June 30, 2008

Year Ending June 30,	General Obligation Bonds	
	Series	
	2007	
	Issued July 15, 2007	
	Interest	
	Rates	Amount
2009	4.00%	35,000
2010	4.10%	40,000
2011	4.15%	40,000
2012	4.20%	40,000
2013	4.25%	45,000
2014-2018	4.30-4.70%	240,000
2019-2023	4.80-4.90%	110,000
Total		550,000

See accompanying independent auditors' report.

City of Riceville

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Fiscal Year

	<u>2008</u>
Receipts:	
Property tax	\$ 149,129
Tax increment financing collections	-
Other city tax	67,593
Licenses and permits	2,481
Use of money and property	12,357
Intergovernmental	99,339
Charges for service	68,995
Special assessments	95,321
Miscellaneous	<u>31,029</u>
Total	<u>\$ 526,244</u>
Disbursements:	
Operating:	
Public safety	\$ 79,990
Public works	169,928
Health and social services	56
Culture and recreation	73,638
Community and economic development	6,112
General government	60,998
Debt service	61,123
Capital projects	<u>633,802</u>
Total	<u>\$ 1,085,647</u>

See accompanying independent auditors' report.

City of Knoxville

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Riceville, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 16, 2009. Our report on the financial statements which were prepared in conformity with an other comprehensive basis of accounting expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. Except as noted in the Independent Auditors' report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Riceville's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Riceville's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the City of Riceville's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies, including deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Riceville's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Riceville's financial statements that is more than inconsequential will not be prevented or detected by the City of Riceville's internal control. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Riceville's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items II-A-08, II-C-08 and II-D-08 are material weaknesses.


Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Riceville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Riceville and other parties to whom the City of Riceville may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Riceville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P. L. C.
Certified Public Accountants
Osage, Iowa
January 16, 2009

City of Riceville
Schedule of Findings
Year ended June 30, 2008

Part I: Summary of the Independent Auditors' Results:

- (a) A qualified opinion was issued on the financial statements since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2007. The financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

City of Riceville
Schedule of Findings
Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

- II-A-08 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-08 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct account.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings.

Response – In the future, more care will be exercised when posting transactions.

Conclusion – Response accepted.

- II-C-08 Dual Signature – The City has a policy that requires dual signatures on all checks. We noted that the City Clerk signs the check then stamps the second signature on the check. Therefore, the control of dual signatures is nullified.

Recommendation – The City should restrict access of the signature stamp to the individual whose name is on the stamp

Response – Dual signatures will be properly used.

Conclusion – Response accepted.

City of Riceville

Schedule of Findings

Year ended June 30, 2008

II-D-08 Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or Council-designated independent person should review the reconciliations.

Response – These procedures will be implemented as recommended.

Conclusion – Response accepted.

City of Riceville
Schedule of Findings
Year ended June 30, 2008

Part III: Other Findings Related to Statutory Reporting:

- III-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the Community and Economic Development Fund. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

- III-B-08 Questionable Disbursements – No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.

- III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- III-D-08 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Shane Lewis, Council Member, Owner of BP Food Shop	Fuel	\$ 9,070

In accordance with Chapter 362.5(10) of the Code of Iowa, the transaction with the Council Member appears to represent a conflict of interest. The amount is over \$1,500 and the two gas stations in the City do not always have comparative pricing.

Recommendation – The City should have a policy in place to always purchase fuel from the lower priced gas station.

Response – The City will set up a policy for fuel purchasing.

Conclusion – Response accepted.

- III-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

City of Riceville

Schedule of Findings

Year ended June 30, 2008

- III-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-08 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy was noted.
- III-H-08 Financial Condition – The Capital Projects Funds, 2000 Project Account and the 2007 Street Project Account had deficit balances at June 30, 2008 of \$37,432 and \$92,180, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The City will investigate alternatives.

Conclusion – Response accepted.

- III-I-08 Payment of General Obligation Bonds – Certain general obligation bond interest payments were paid from the 2007 Capital Street Projects Fund. Chapter 384.4 of the Code of Iowa states, in part "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund." In Exhibits A and B an adjustment was made to show the interest payments made out of the debt service line item within the Capital Projects Fund. For budgetary purposes shown in the Required Supplementary Information the interest payments are included in the total Capital Projects line item as budgeted and paid on the city books.

Recommendation – The City should transfer from the Capital Projects Fund to the Debt Service Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

- III-J-08 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image for the City, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will contact the bank and inform them of the requirement.

Conclusion – Response accepted.

City of Riceville

Schedule of Findings

Year ended June 30, 2008

III-K-08 Discriminatory Rates – We noted that the City charges two rates for garbage based on age. Chapter 388.6 of the Code of Iowa states, in part, that there cannot be special rates based on discriminatory factors. (senior citizens)

Recommendation – The City should consult legal counsel about this issue.

Response – The City will consult legal counsel.

Conclusion – Response accepted.